

UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF CALIFORNIA

ARDENTE, INC.,

No. C 07-4479 MHP

Plaintiff,

**MEMORANDUM & ORDER**

v.

**Re: Defendant's Motion to Dismiss**

RICHARD J. SHANLEY, et al.,

Defendants.

Plaintiff Ardente, Inc., has brought five<sup>1</sup> claims, including patent infringement, breach of contract and fraud, against defendants Richard J. Shanley ("Shanley"), Wear the Best, Inc., and Stir Chef LLC (collectively "defendants").<sup>2</sup> Defendants now move for dismissal of plaintiff's operative complaint. Having considered the parties' arguments and submissions, the court enters the following memorandum and order.

**BACKGROUND**<sup>3</sup>

On this motion to dismiss the allegations of the complaint are taken as true. Plaintiff is a California corporation which describes itself as a "mom and pop" corporation. Each defendant is a citizen of Connecticut. Defendant Shanley is the president of Wear the Best, Inc., and was a member of Stir Chef LLC, which was dissolved in March 2004. Plaintiff alleges Wear the Best, Inc., and Stir Chef LLC are merely alter egos of Shanley, and that Shanley dominated and controlled the two entities.

1 John Ardente is the inventor of an automatic food-stirring device. On September 5, 2000, the  
2 United States Patent and Trademark Office (USPTO) issued to John Ardente United States Patent  
3 No. 6,113,258, entitled “BATTERY POWERED FOOD STIRRER WITH PIVOTALLY  
4 MOUNTED SPRING BIASED ARMS” (“the ’258 Patent”). John Ardente subsequently assigned  
5 the ’258 Patent to plaintiff Ardente, Inc.

6 In 2001 or 2002, defendants or their agents approached plaintiff to discuss defendants’ desire  
7 to take a license to the ’258 patent for a new product defendants were contemplating. No license  
8 deal was entered into at that time. In January 2003, a representative from plaintiff attended the  
9 International Housewares Show, a housewares trade show in Chicago, Illinois (“the 2003 trade  
10 show”). Plaintiff learned that defendants were intending to launch a new product, called “Stir Chef,”  
11 at the 2003 trade show. Plaintiff believed the Stir Chef product infringed the ’258 patent.  
12 Defendants disclosed to plaintiff at that time that defendants’ own patent counsel had opined that the  
13 Stir Chef product infringed the ’258 patent and that the ’258 patent was valid. Defendants also  
14 allegedly disclosed to plaintiff at the 2003 trade show that defendants’ patent attorney had advised  
15 defendants they could have changed the configuration of their product to avoid the ’258 patent;  
16 however, such a change would have resulted in substantial delay for defendants, who had already  
17 manufactured and imported substantial amounts of the infringing product prior to the 2003 trade  
18 show. Defendants offered a license deal to plaintiff pursuant to which defendants agreed to pay  
19 royalties on sales of the Stir Chef product, including a \$25,000 minimum quarterly payment during  
20 the period of the license if the sale of the product was insufficient to trigger larger royalty payments.  
21 Plaintiff accepted the deal and entered into a written license agreement with Stir Chef LLC, dated  
22 February 13, 2003, granting an exclusive, non-transferrable license to Stir Chef LLC. *See* Docket  
23 No. 46, Exh. A (“License Agreement”). John Ardente signed the license agreement on behalf of  
24 Ardente, Inc. Warren Tuttle, identified as the president of Stir Chef LLC, signed the agreement on  
25 its behalf.<sup>4</sup> At that time, Shanley was president of Wear the Best, Inc., and both Shanley and Wear  
26 the Best, Inc., were members of Stir Chef LLC.

1 Under the agreement, Stir Chef LLC was to manufacture, market and sell the Stir Chef  
2 product, along with a similar product called “EZ Stir,” both of which the parties believed practiced  
3 the ’258 patent. Although defendants initially anticipated manufacturing and importing one million  
4 units of their products into the United States, Shanley began to represent to plaintiff that sales were  
5 less than expected and that he did not expect the product to sell. Shanley began to put pressure on  
6 plaintiff to terminate the licensing agreement, telling plaintiff that if the agreement could not be  
7 terminated Stir Chef LLC would be forced to declare bankruptcy, thus ending any royalty payments.  
8 On February 17, 2004, the parties entered into a written “Mutual Release Under License Agreement”  
9 (“mutual release”). Stir Chef LLC agreed to pay plaintiff a lump sum of \$20,000 and to cease  
10 selling the licensed product by December 31, 2004. Section 4 of the mutual release provided:

11 Except for these obligations arising under the above referenced provisions of Articles  
12 5 to 7 of said Exclusive License Agreement; and in consideration of the covenants,  
13 agreements and conditions herein, both the Licensor and the Licensee, each to the  
14 other, release and forever discharge, the other of them and the other’s successors and  
15 assigns forever, and do remise, release and forever discharge the other, and the  
16 other’s successor and assigns, of and from any and all manner of actions, cause and  
17 causes of action, suit, damages, judgments, executions, property damage and  
18 demands whatsoever, in law or in equity, which each has ever had, or now has,  
19 against the other and the other’s successors and assigns, arising out of or being a part  
20 of said Licensee [sic].

21 Docket No. 46, Exh. B (“Mutual Release”) at 3. Shanley signed the mutual release on behalf of Stir  
22 Chef LLC. In agreeing to the mutual release, plaintiff relied upon the assertions of defendants, and  
23 particularly Shanley, that the product was not selling and that Stir Chef LLC was on the verge of  
24 bankruptcy.

25 Shanley caused Stir Chef LLC to be dissolved on March 15, 2004, less than one month after  
26 signing the mutual release. Rather than cease all sales of stirrers by December 31, 2004, Shanley  
27 instead “transferred ownership” of the stirrers to Wear the Best, Inc. Wear the Best, Inc., is located  
28 at the same address as Stir Chef LLC, and the product inventory was not moved as part of the  
transfer of ownership. Wear the Best, Inc., began advertising and selling the product, and it  
continued to do so through at least August 2007, well past the agreed final sell-off date of December  
31, 2004. The products that defendants sold continued during this time to have plaintiff’s patent  
number affixed to them. Plaintiff avers it would never have agreed to the mutual release if it had

1 known defendants were going to continue to market Stir Chef products after December 31, 2004,  
2 because plaintiff intended to market its own product embodying the '258 patent.

3 Plaintiff initiated this action in August 2007. Following unsuccessful mediation, the action  
4 was stayed after Wear the Best, Inc., initiated an ex parte reexamination of the '258 patent at the  
5 USPTO. Plaintiff notified the court in September 2009 that the reexamination had been completed.  
6 In November 2009, plaintiff filed its First Amended Complaint. Defendants filed the instant motion  
7 to dismiss on December 14, 2009.

## 8 9 LEGAL STANDARDS

### 10 I. Motion to Dismiss

11 A motion to dismiss filed under Federal Rule of Civil Procedure 12(b)(6) “tests the legal  
12 sufficiency of a claim.” *Navarro v. Block*, 250 F.3d 729, 732 (9th Cir. 2001). Since Rule 12(b)(6) is  
13 concerned with a claim’s sufficiency rather than its substantive merits, when faced with a motion to  
14 dismiss, courts typically courts “look only at the face of the complaint.” *Van Buskirk v. Cable News*  
15 *Network, Inc.*, 284 F.3d 977, 980 (9th Cir. 2002). Allegations of material fact are taken as true and  
16 construed in the light most favorable to the nonmoving party. *Cahill v. Liberty Mut. Ins. Co.*, 80  
17 F.3d 336, 337-38 (9th Cir. 1996). The court need not, however, accept as true allegations that are  
18 conclusory, legal conclusions, unwarranted deductions of fact or unreasonable inferences. *See*  
19 *Sprewell v. Golden State Warriors*, 266 F.3d 979, 988 (9th Cir. 2001); *Clegg v. Cult Awareness*  
20 *Network*, 18 F.3d 752, 754-55 (9th Cir. 1994).

### 21 II. Pleading a Claim for Relief

22 Pursuant to Federal Rule of Civil Procedure 8, a court will grant a motion to dismiss if the  
23 plaintiff fails to plead “enough facts to state a claim to relief that is plausible on its face.” *Bell Atl.*  
24 *Corp. v. Twombly*, 550 U.S. 544, 570 (2007). A plaintiff’s complaint may be dismissed either for  
25 failing to articulate a cognizable legal theory or for not alleging sufficient facts under a cognizable  
26 legal theory. *Balistreri v. Pacifica Police Dep’t.*, 901 F.2d 696, 699 (9th Cir. 1990). In *Ashcroft v.*  
27 *Iqbal*, \_\_\_ U.S. \_\_\_, \_\_\_, 129 S.Ct. 1937, 1950 (2009), the U.S. Supreme Court held that a court can  
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1 “begin by identifying pleadings that, because they are no more than conclusions, are not entitled to  
2 the assumption of truth. While legal conclusions can provide the framework of a complaint, they  
3 must be supported by factual allegations. When there are well-pleaded factual allegations, a court  
4 should assume their veracity and then determine whether they plausibly give rise to an entitlement to  
5 relief.”<sup>5</sup> *Id.*

### 6 III. Pleading Fraud

7 A plaintiff in federal court alleging claims grounded in fraud must satisfy a heightened  
8 pleading standard that requires that the circumstances constituting fraud be pled with particularity.  
9 Fed. R. Civ. P. 9(b); *see Vess. v. Ciba-Geigy Corp. USA*, 317 F.3d 1097, 1103-04 (9th Cir. 2003).  
10 “Rule 9(b) demands that the circumstances constituting the alleged fraud be specific enough to give  
11 defendants notice of the particular misconduct . . . so that they can defend against the charge and not  
12 just deny that they have done anything wrong.” *Kearns v. Ford Motor Co.*, 567 F.3d 1120, 1124  
13 (9th Cir. 2009) (quoting *Bly-Magee v. California*, 236 F.3d 1014, 1019 (9th Cir. 2001)) (quotation  
14 marks omitted). To satisfy Rule 9(b), plaintiffs must explicitly aver “the who, what, when, where,  
15 and how” of the alleged fraudulent conduct. *Cooper v. Pickett*, 137 F.3d 616, 627 (9th Cir. 1997).  
16 In addition, plaintiffs must “set forth an explanation as to why [a] statement or omission complained  
17 of was false and misleading.” *In re GlenFed, Inc. Sec. Litig.*, 42 F.3d 1541, 1548 (9th Cir. 1994) (en  
18 banc); *see Fecht v. Price Co.*, 70 F.3d 1078, 1082 (9th Cir. 1995). A plaintiff seeking to state a  
19 claim for fraud must also plead knowledge of falsity, or scienter. *See GlenFed*, 42 F.3d at 1546.  
20 The requirement for pleading scienter is less rigorous than that which applies to allegations  
21 regarding the “circumstances that constitute fraud” because “malice, intent, knowledge, and other  
22 conditions of a person’s mind may be alleged generally.” Fed. R. Civ. P. 9(b). Nonetheless, nothing  
23 in the Federal Rules of Civil Procedure relieves a plaintiff of the obligation to “set forth facts from  
24 which an inference of scienter could be drawn.” *Cooper*, 137 F.3d at 628 (quoting *GlenFed*, 42 F.3d  
25 at 1546). It is well settled in the Ninth Circuit that the Federal Rules of Civil Procedure, including  
26 Rule 9(b), “apply in federal court, ‘irrespective of the source of the subject matter jurisdiction, and  
27 irrespective of whether the substantive law at issue is state or federal.’” *Kearns*, 567 F.3d at 1125  
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1 (quoting *Vess*, 317 F.3d at 1102). Thus, plaintiff's state law claims, to the extent they sound in  
2 fraud, must satisfy Rule (9)(b). *Id.*; *Vess*, 317 F.3d at 1102-05.

3  
4 DISCUSSION

5 The complaint advances five separate causes of action: (1) infringement of the '258 patent;  
6 (2) breach of contract as to both the license agreement and the mutual release; (3) fraud;  
7 (4) rescission of the mutual release; and (5) constructive fraud. Defendants challenge the legal  
8 sufficiency of the claims on a number of bases.

9 I. Alter Ego

10 As a preliminary matter, defendants base some of their challenges to the complaint on their  
11 contention that plaintiff has inadequately pled facts alleging that Stir Chef LLC and Wear the Best,  
12 Inc., were alter egos of Shanley. Defendants cite no authority, and the court is aware of none,  
13 holding that an allegation that one defendant has acted as an alter ego of another defendant is an  
14 allegation "grounded in fraud" or "sounding in fraud" such that the heightened pleading standard of  
15 Federal Rule of Civil Procedure 9(b) applies. Moreover, this is not a cause of action but a doctrine  
16 for determining the party upon whom liability should be imposed.

17 The complaint's allegations concerning the alter ego theory are plausible enough to state a  
18 claim under Rule 8. The complaint specifically alleges Shanley was a member of Stir Chef LLC and  
19 was the president of Wear the Best, Inc. Shanley signed the mutual release on behalf of Stir Chef  
20 LLC. The complaint also alleges Stir Chef LLC and Wear the Best, Inc., are physically located at  
21 the same place and that the transfer of inventory from one entity to the other involved no physical  
22 movement of the products. Also alleged is that Shanley represented he would have Stir Chef LLC  
23 declare bankruptcy, and that Shanley directed Wear the Best, Inc.'s marketing of the products. The  
24 complaint pleads enough facts concerning the alter ego theory to plausibly state a claim to relief  
25 having that theory as a basis. *See Twombly*, 550 U.S. at 570.

1 II. Patent Infringement

2 Defendants' first argument pertaining to the patent infringement claim is that the complaint  
3 fails to give each individual defendant notice of the allegations against it. This argument is  
4 unpersuasive. The complaint specifically sets forth the following allegations: Stir Chef LLC entered  
5 into the license agreement with plaintiff; Stir Chef LLC, through its signatory Shanley, entered into  
6 the mutual release; Shanley caused Stir Chef LLC to sell its inventory to Wear the Best, Inc.; Wear  
7 the Best, Inc., continued to sell the stirrers; and Shanley controlled both entities at all relevant times.  
8 The complaint puts each defendant on sufficient notice of the charges against it. The case of  
9 *PLS-Pacific Laser Systems v. TLZ Inc.*, No. C-06-04585, 2007 WL 2022020 (N.D. Cal. July 9, 2007)  
10 (Whyte, J.), relied upon by defendants, is inapposite. The *PLS-Pacific* court dismissed a patent  
11 infringement claim without prejudice, finding the allegations insufficient to give each named  
12 defendant notice of the specific claims against it. *Id.* at \*10-11. The parties in that case did not  
13 dispute that each defendant had a different role within defendants' corporate structure. *Id.* at \*11.  
14 Here, the complaint is clear in its identification of the part played by each entity and is also clear in  
15 its allegation that the two entities were Shanley's alter egos.

16 Defendants also argue that the patent infringement claim fails because it does not allege any  
17 infringement following the issuance of the reexamination certificate from the USPTO. The purpose  
18 of the reexamination procedure is to permit an interested party to obtain review and, if necessary,  
19 correction of the claims that resulted from the initial review of the patent. *Bloom Eng'g Co., Inc. v.*  
20 *N. Am. Mfg. Co., Inc.*, 129 F.3d 1247, 1249 (Fed. Cir. 1997). Changes to the claims may be made  
21 during reexamination, but the claims may not be enlarged. *Id.* (citing 35 U.S.C. § 305).

22 Furthermore,

23 a reissued patent is enforceable against infringing activity that occurred after the  
24 issuance of the original patent, to the extent that its claims are substantially identical  
25 to the claims of the original patent. Thus, unless a claim granted or confirmed upon  
26 reexamination is identical to an original claim, the patent can not be enforced against  
27 infringing activity that occurred before issuance of the reexamination certificate.  
28 "Identical" does not mean verbatim, but means at most without substantive change.  
An amendment that clarifies the text of the claim or makes it more definite without  
affecting its scope is generally viewed as identical.

1 *Predicate Logic, Inc. v. Distributive Software, Inc.*, 544 F.3d 1298, 1305 (Fed Cir. 2008) (quoting  
2 *Bloom Eng'g Co.*, 129 F.3d at 1250) (internal citations, quotation marks and ellipses omitted); *see*  
3 *also* 35 U.S.C. § 252. Accordingly, any reexamined claim of the '258 patent that is not substantially  
4 identical to the original claim cannot create the basis for an infringement action during the time  
5 period before the issuance of the reexamination certificate, i.e., before July 7, 2009. Defendants  
6 argue that the complaint contains no allegation (1) of any infringing activity after that date or (2) that  
7 any of the amended claims in the reexamined patent is substantially identical to an original claim.

8       It is not entirely true that the complaint does not allege any infringing activity after July 7,  
9 2009. The complaint alleges that Wear the Best, Inc., was marketing the inventory of Stir Chef  
10 products it acquired from Stir Chef LLC through *at least* August 2007. Prior to discovery, there is  
11 no way to adduce the actual end date of Wear the Best, Inc.'s sales of the products, if such sales  
12 occurred. As to the products that were sold before July 7, 2009, defendant is correct that their sale  
13 cannot be held to constitute infringement of a reexamined patent claim that is not substantially  
14 identical to the original claim. On its face, the reexamination certificate shows that a number of  
15 revisions were made to the patent's claims during the process of reexamination. *See* Docket No. 46,  
16 Exh. D (Reexamination Certificate). Yet defendants do not actually argue that none of the claims  
17 covering the allegedly infringing products are, in fact, substantially similar.<sup>6</sup> Defendants simply  
18 argue that plaintiff has failed to plead that any claim is substantially similar. Defendants offer no  
19 authority for the proposition that a plaintiff must specifically plead "substantial similarity" of a  
20 reexamined claim to an original claim, and the court is aware of none. Defendants are well aware  
21 that the patent recently went through reexamination, and they cannot plausibly maintain that they  
22 have been given inadequate notice that plaintiff will assert some of the reexamined claims to be  
23 enforceable as to the alleged conduct occurring prior to issuance of the reexamination certificate.

24       Finally, defendants contend that they are protected under the doctrine of patent exhaustion  
25 (sometimes referred to as "first sale doctrine"), which is a defense to patent infringement. *See*  
26 *ExcelStor Tech., Inc. v. Papst Licensing GMBH & Co. KG*, 541 F.3d 1373, 1376 (Fed. Cir. 2008)  
27 (noting patent exhaustion is a defense to patent infringement). "The longstanding doctrine of patent  
28



1 exhaustion provides that the initial authorized sale of a patented item terminates all patent rights to  
2 that item.” *Quanta Computer, Inc., v. LG Elec., Inc.*, \_\_\_ U.S. \_\_\_, 128 S.Ct. 2109, 2115 (2008).  
3 “Exhaustion is triggered only by a sale authorized by the patent holder.” *Id.* at 1121. Defendants  
4 argue that Stir Chef LLC had the right pursuant to the mutual release to sell its remaining inventory  
5 of stirrers prior to December 31, 2004. The relevant provision of the mutual release provides that  
6 Stir Chef LLC “will attempt to sell to its current customers or liquidators all inventory and stock it  
7 has on hand as soon as possible, and in any event no later than December 31, 2004 . . . .” Mutual  
8 Release at 2. According to defendant, once Stir Chef LLC sold the stirrers to Wear the Best, Inc.,  
9 plaintiff’s patent rights to the inventory were terminated. Defendants’ position is too facile. The  
10 patent exhaustion doctrine originally developed to protect from the patent monopoly those  
11 “purchasers who bought the item for use ‘in the ordinary pursuits of life.’” *Quanta Computer, Inc.*,  
12 128 S.Ct. at 2115 (quoting *Bloomer v. McQuewan*, 14 How. 539, 549 (1853)). As discussed above,  
13 plaintiff has plausibly alleged that Stir Chef LLC and Wear the Best, Inc., were both controlled by  
14 Shanley. If the “sale” of the stirrers was de facto a sale from Shanley to himself, it cannot be the  
15 case that the doctrine of patent exhaustion can be successfully invoked; otherwise, any potential  
16 commercial infringer could assert she had already extinguished the patentee’s rights by “selling” a  
17 product to herself. As to any question that might be raised about the sufficiency of the pleading, it  
18 should also be noted that patent exhaustion is a defense to patent infringement: a plaintiff has no  
19 obligation to plead facts in its complaint to rebut every defense that might be raised.

20 Accordingly, defendants’ motion to dismiss the claim for patent infringement is DENIED.

21 III. Breach of Contract

22 Defendants contend the breach of contract claim should be dismissed as to both the license  
23 agreement and the mutual release.<sup>7</sup> First, defendants contend that section 4 of the mutual release  
24 expressly released all claims arising under the license agreement and that the plaintiff cannot now  
25 bring a claim for breach of the license agreement. *See* Mutual Release at 3. Plaintiff fails to respond  
26 to this argument and therefore concedes it through silence.

1 As to breach of the mutual release, defendants argue in effect that no party is a proper  
2 defendant. Defendants correctly note that by the terms of the complaint Stir Chef LLC was  
3 dissolved in March 2004, before any breach based on the alleged continued sales after December 31,  
4 2004, could have occurred. But defendants also argue that Shanley and Wear the Best, Inc., cannot  
5 be held liable because they were not parties to the mutual release.<sup>8</sup> Under this theory, there would  
6 conveniently be no party who could be sued even if the contract were breached. Plaintiff's plausible  
7 allegations that Stir Chef LLC and Wear the Best, Inc., were alter egos of Shanley are more than  
8 adequate to defeat defendants' line of reasoning. If the two entities were merely alter egos of  
9 Shanley, then liability for breach of the mutual release could extend beyond Stir Chef LLC.  
10 Furthermore, the facts alleged concerning breach of the mutual release are sufficient to put  
11 defendants on notice of what each of them is alleged to have done, and the allegations concerning  
12 damages are sufficient to state a claim.<sup>9</sup>

13 Accordingly, defendants' motion to dismiss the breach of contract claim is GRANTED  
14 insofar as the claim alleges breach of the license agreement and DENIED insofar it alleges breach of  
15 the mutual release.

16 IV. Fraud and Constructive Fraud

17 The complaint alleges defendants committed fraud on plaintiff in the obtaining of both the  
18 license agreement and the mutual release. According to plaintiff, defendants induced plaintiff to  
19 enter into the license agreement with no intention of accurately accounting for the royalties due to  
20 plaintiff. Defendants also allegedly fraudulently induced plaintiff to sign the mutual release by  
21 (1) under-reporting the number of stirrers sold and thus the royalties due to plaintiff, (2) falsely  
22 representing Stir Chef LLC would declare bankruptcy unless plaintiff agreed to terminate the license  
23 agreement, and (3) falsely stating Stir Chef LLC would cease all marketing of the product as of  
24 December 31, 2004, when in fact Shanley intended to continue doing so through a "sham" sale to  
25 another entity. "The elements of fraud, which gives rise to the tort action for deceit, are  
26 (a) misrepresentation (false representation, concealment, or nondisclosure); (b) knowledge of falsity  
27 (or "scienter"); (c) intent to defraud, i.e., to induce reliance; (d) justifiable reliance; and (e) resulting  
28

1 damage.” *Small v. Fritz Companies, Inc.*, 30 Cal. 4th 167, 173 (Cal. 2003) (quoting *Lazar v.*  
2 *Superior Court*, 12 Cal. 4th 631, 638 (1996)).

3 As to the fraud count pertaining to the license agreement, defendants here too contend the  
4 parties intended to release, and did release, all claims pertaining to the license agreement through  
5 section 4 of the mutual release. Plaintiff does not respond to this argument and therefore concedes  
6 it.

7 As to the fraud count alleging fraudulent inducement to sign the mutual release, defendants  
8 argue plaintiff is seeking to convert a breach of contract claim into a tort claim. More specifically,  
9 defendants contend that the complaint inadequately pleads the elements of misrepresentation and  
10 scienter. Indeed, plaintiff’s allegation of under-reporting is conclusory and speculative, as it  
11 provides nothing that gives rise to an inference that plaintiff actually has any reason to believe the  
12 allegation’s veracity aside from plaintiff’s general distrust of defendants. *See, e.g.*, FAC ¶ 49 & 53.  
13 The allegation that Shanley misrepresented his intention to cause Stir Chef LLC to declare  
14 bankruptcy should plaintiff not agree to terminate the license agreement is likewise insufficient. The  
15 complaint specifies the timing, source and context of the statement. *See id.* ¶ 21. Yet there is  
16 nothing in the complaint that would support a finding that the statement was a misrepresentation.  
17 There is no allegation that contradicts the representation that Stir Chef LLC would have been forced  
18 into bankruptcy had it been required to continue paying plaintiff \$25,000 per quarter. The allegation  
19 that defendants misrepresented their intentions by promising to stop distributing the stirrers by  
20 December 31, 2004, is also inadequately pled. While a plaintiff may aver intent generally,  
21 “something more than nonperformance is required to prove the defendant’s intent not to perform his  
22 promise.” *Tenzer v. Superscope, Inc.*, 39 Cal. 3d 18, 30 (Cal. 1985) (citing *Restatement (2d) of Torts*  
23 § 530 (1977)) (other citations omitted). Plaintiff’s fraud allegations pertaining to sales beyond  
24 December 31, 2004, amount to a complaint that defendants did not perform an obligation set forth in  
25 the mutual release. Courts are justifiably loathe to allow tort claims and damages in actions that are  
26 fundamentally about enforcing legitimate business expectations rather than vindicating social policy.  
27 *See generally Oracle USA, Inc. v. XL Global Services, Inc.*, No. C 09-0537, 2009 WL 2084154  
28

1 (N.D. Cal. July 13, 2009) (Patel, J.) (discussing interplay between contract and tort under California  
2 law). The complaint undeniably states claims for patent infringement and breach of contract but  
3 does not plead facts with the particularity necessary to state a claim for fraud.

4 Plaintiff has also pled a claim for constructive fraud. To state a such claim, a party must  
5 allege: (1) a fiduciary or confidential relationship; (2) an act, omission or concealment involving a  
6 breach of that duty; (3) reliance; and (4) resulting damage. *Dealertrack, Inc. v. Huber*, 460 F. Supp.  
7 2d 1177, 1183 (C.D. Cal. 2006) (citing *Assilzadeh v. Cal. Fed. Bank*, 82 Cal. App. 4th 399, 414  
8 (2000)). Plaintiff bases the existence of a fiduciary duty or confidential relationship solely on the  
9 existence of a licensor-licensee relationship. Defendant argues that a patent licensing agreement  
10 does not, in itself, give rise to a fiduciary or confidential relationship and cannot therefore provide  
11 the basis for a constructive fraud claim. At least one court has held, and this court agrees, that a  
12 contractual obligation to pay royalties and to maintain full and accurate records of royalties due does  
13 not necessarily give rise to a fiduciary duty or confidential relationship. *See Portney v. CIBA Vision*  
14 *Corp.*, No. SACV 07-0854, 2008 WL 5505517, at \*4 (C.D. Cal. July 17, 2008). Notably, plaintiff  
15 also fails to oppose this argument.

16 The motion to dismiss is accordingly GRANTED as to plaintiff's claims for fraud and  
17 constructive fraud.

18 V. Rescission

19 Plaintiff has pled rescission of the mutual release as a separate cause of action. Defendants  
20 correctly note that rescission is a remedy, not a claim. *See, e.g., Ojavan Investors, Inc. v. Cal.*  
21 *Coastal Comm'n*, 54 Cal. App. 4th 373, 392 (1997); *Hafiz v. Greenpoint Mortgage Funding, Inc.*,  
22 652 F. Supp. 2d 1039, 1048 (N.D. Cal. 2009) (Alsup, J.). Plaintiff did not bother to dispute this  
23 point in its opposition. Moreover, rescission is an equitable remedy based in *quantum meruit* or  
24 quasi-contract principles; as such, it is typically available as an alternative remedy to an action for  
25 breach of contract, to ensure one party is not unjustly enriched at the expense of another where  
26 contract damages are unavailable. *See Williston on Contracts* § 68:1 (2003). In the instant case,  
27 plaintiff is in fact alleging breach of contract. There are no grounds to maintain rescission as a  
28

1 separate cause of action. This does not, of course, place any limits on the court's power to provide  
2 equitable remedies where warranted.


3 Accordingly, defendant's motion to dismiss plaintiff's claim for rescission is GRANTED.  
4

5 CONCLUSION

6 For the foregoing reasons, defendants' motion to dismiss is GRANTED IN PART and  
7 DENIED IN PART. Plaintiff's claims for fraud, constructive fraud and rescission are DISMISSED,  
8 and plaintiff's claim for breach of contract is DISMISSED IN PART as discussed above. Before  
9 filing any amended complaint, plaintiff must file a motion for leave to file a motion to amend, and  
10 any such motion must be filed within thirty (30) days of entry of this order.  
11

12 IT IS SO ORDERED.  
13

14 Dated: February 9, 2010  
15

  
\_\_\_\_\_  
MARILYN HALL PATEL  
United States District Court Judge  
Northern District of California

**ENDNOTES**

1. At issue in this action are two contracts and two related instances of alleged fraudulent inducement. For reasons unknown to the court, plaintiff pled a single breach of contract count but pled two separate counts of fraud. For the purposes of this order, the court refers to plaintiff's two separate fraud counts as one claim.

2. Plaintiff initially named Dynamic Living, Inc., as a defendant, but plaintiff later dismissed that entity from the action with prejudice. Docket No. 38 (Stipulation and Order).

3. Unless otherwise indicated, all factual allegations are taken from plaintiff's operative First Amended Complaint. See Docket No. 46 ("FAC").

4. The complaint states that Shanley was a signatory to the license agreement. See FAC ¶ 18. The copy of the license agreement appended to the complaint contradicts that assertion on its face, and plaintiff admits in its opposition brief that the identification of Shanley as a signatory to the license agreement was a mistake. See Docket No. 49 (Pl.'s Opp.) at 10 n.3.

5. Plaintiff erroneously characterizes *Iqbal* as a "refinement" of the pleading requirement set forth in *Conley v. Gibson*, 355 U.S. 41 (1957). See Pl.'s Opp. at 5. The *Iqbal* case was in fact a refinement of *Twombly*, which explicitly "retire[d]" the pleading standard set forth in *Conley*. See *Twombly*, 550 U.S. at 563.

6. Plaintiff did not allege in its complaint which claims of the '258 it believes were infringed. Form 18 ("Complaint for Patent Infringement") found in the appendix of forms in the Federal Rules of Civil Procedure does not indicate that a party must specify the particular claims thought to have been infringed. The court is unaware of any case holding that the Supreme Court's decisions in *Twombly* and *Iqbal* have now resulted in a strict requirement that a patent infringement plaintiff plead the specific claims believed to have been infringed. See generally *McZeal v. Sprint Nextel Corp.*, 501 F.3d 1354, 1356-57 (Fed. Cir. 2007) (discussing patent infringement pleading standards generally and the "Complaint for Patent Infringement Form" specifically, following *Twombly*). In any event, specifying the patent claims allegedly infringed enhances the plausibility of a patent infringement plaintiff's complaint. In the instant case, where there are allegations that defendants acknowledged they practiced the patent, the imperative to specify the claims infringed is diminished. In any event, plaintiff will be required to do so in its infringement contentions.

7. Defendants include a discussion of choice of law in their moving paper, noting that the license agreement includes a provision stating that California law shall apply whereas the mutual release has no choice of law provision. Defendants suggest that the law of Connecticut *might* apply to some aspects of this action but do not actually argue that it *should* apply. Indeed, defendants state that "there generally does not appear to be a conflict between Connecticut and California law as they apply to the issues raised in this motion . . ." Docket No. 47 (Def.'s Mot.) at 11. Since defendant has not actually argued Connecticut law should be applied and has not identified any relevant conflict between California and Connecticut law, this court applies the substantive law of the forum state, California, with which it is more familiar. See *Hatfield v. Halifax PLC*, 564 F.3d 1177, 1184 (9th Cir. 2009) ("Where no authority, or insufficient authority, is presented by the parties about foreign law, a court may conclude that the parties have acquiesced in the application of the law of the forum.") (quoting *Interpool Ltd. v. Char Yigh Marine (Panama) S.A.*, 890 F.2d 1453, 1458 (9th Cir. 1989)).

8. Shanley signed the mutual release, but he did so on behalf of Stir Chef LLC.

9. As defendants concede, the complaint alleges plaintiff intended to commercialize a product embodying the '258 patent. The mutual release contains a number of provisions having the effect of

**United States District Court**

For the Northern District of California

1 removing Stir Chef LLC from the relevant marketplace. These facts support an inference that plaintiff  
2 had a commercial interest in the prompt liquidation of the existing products.

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